

1 CHAIRPERSON JAMES: Well, thank you. Mr. DuCharme,  
2 thank you so much for being here today.

3 MR. DuCHARME: Is that taking part of my time?

4 CHAIRPERSON JAMES: No, we'll start the clock now.

5 MR. DuCHARME: Thank you for having me.

6 CHAIRPERSON JAMES: Thank you.

7 MR. DuCHARME: Nevada has been involved in gaming  
8 regulation in some manner or form since gaming was legalized here  
9 in 1931. Early regulation amounted to little more than  
10 collecting an annual tax or licensing fee. The modern era of  
11 gaming regulation began in 1959 with the adoption of the Gaming  
12 the Control Act. The cornerstone of Nevada regulation is set  
13 forth in the statutory statement of public policy concerning  
14 gaming.

15 That public policy states in part (a) the gaming  
16 industry is vitally important to the economy of the state and the  
17 general welfare of the inhabitants; (b) the continued growth and  
18 success of gaming is dependent upon public confidence and trust  
19 that licensed gaming is conducted honestly and competitively and  
20 gaming is free from criminal and corruptive elements; (c) public  
21 confidence and trust can only be maintained by strict regulation  
22 of all persons, locations, practices, associations, and  
23 activities related to the operation of licensed gaming  
24 establishments.

25 All of the gaming statutes and regulations are  
26 directed towards these goals with two of the primary objectives  
27 being (1) to ensure that the patron or player gets a fair and

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1 honest game, and (2) that gross gaming revenues are properly  
2 accounted for and all taxes are paid.

3 To achieve these goals and objectives while  
4 regulating over 2,600 licensees including over 400 casinos of  
5 widely varying sizes, we rely heavily on a front loaded licensing  
6 process and a continuing audit review for compliance with  
7 internal control standards.

8 By this front loaded licensing process I mean we  
9 require the applicant to prove to the Board and the Commission  
10 that he or she is suitable prior to any involvement in the  
11 operation of a licensed gaming establishment.

12 A portion of the statute governing suitability states  
13 the burden of proving this qualification to receive any license  
14 or to be found suitable is on the applicant. The applicant must  
15 prove he is a person of good character, honesty, and integrity  
16 whose prior activities, criminal record, reputation, habits and  
17 associations do not pose a threat to the public interest or to  
18 the affected regulation and control of gaming; and he must prove  
19 that he has adequate business probity, confidence, and  
20 experience; and that the financing is adequate and from a  
21 suitable source.

22 This suitability burden can sometimes be a daunting  
23 task for an applicant especially when faced with trying to  
24 disprove a negative. While there is nothing magical or mystical  
25 about our investigative process it is above all thorough and  
26 former Chairman O'Reilly had gone through the litany of requests  
27 that we submit to the applicant to provide to us to have  
28 reviewed, so I won't repeat that.

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1 I will note that many first time applicants are not  
2 prepared for the time, money, and attention to detail that these  
3 investigations require. Some investigations have cost more than  
4 million dollars and taken more than a year to complete. The cost  
5 of the investigation must be paid by the applicant. And after  
6 all that licensing decisions are at the sole discretion of the  
7 Nevada Gaming Commission and are not subject to judicial review.

8 Once licensed, gaming operators are subjected to a  
9 continuing review by the audit division which conducts surprise  
10 observation of critical procedures as well as a regular  
11 scheduled, complete audits on all books, records, and compliance  
12 with internal control standards are examined.

13 Other divisions within the Gaming Control Board also  
14 monitor gaming compliance around the state on a 24-hour basis.  
15 Through the course of this continual compliance review,  
16 violations are discovered. Some are purposeful, some are  
17 unintentional. A progressive discipline system is generally used  
18 for the more common and less serious transgressions which are  
19 most often violations of internal controls.

20 A violation deemed more serious and one which carries  
21 a minimum mandatory fine of \$25,000.00 is any violation of  
22 regulation 6(a). This so called anti-money laundering  
23 regulation. This Nevada regulation is enforced in lieu of Title  
24 31 of the Federal Bank Secrecy Act and has reporting and record  
25 keeping requirements that are more demanding than the federal  
26 regulation.

27 There have been a number of violations and regulation  
28 6(a) discovered through the normal audit procedures and through

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1 participatory or sting type transactions by Board agents, and  
2 while there have been a number of complaints served and fines  
3 imposed ranging from the minimum mandatory to \$1 million; in no  
4 instance did we find the licensee who had intentionally aided in  
5 money laundering.

6 I also wanted to mention the number of complaints  
7 that have been issued relative to minors being permitted in  
8 casinos. Since 1984 there have been nine such complaints issued,  
9 seven of which resulted in the imposition of a fine. The fines  
10 levied in these cases varied from \$5,000.00 to \$350,000.00.

11 The structure of the Gaming Control Board and Nevada  
12 Gaming Commission is the cause of some confusion and my mother  
13 has lived here for over 40 years and she doesn't know whether I'm  
14 on the board or the Commission.

15 We have a full time three member Gaming Control Board  
16 which is responsible for discharging and administering the day  
17 to day responsibilities of gaming regulation through the efforts  
18 of more than 400 gaming agents and staff.

19 The Nevada Gaming Commission is comprised of five  
20 members who devote such time as necessary to be the final  
21 authority on licensing and disciplinary matters and to promulgate  
22 regulations that govern the conduct of gaming in the state.

23 The five Commission members and the three board  
24 members are all appointed by the governor on a staggered basis  
25 for fixed four year terms. No more than three members of the  
26 Commission may be of the political party and no member of the  
27 board or the Commission may engage in any political party  
28 activities.

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1           This structure is intended to provide a stable  
2 regulatory apparatus that can make independent decisions based on  
3 statutory guidelines.

4           The Gaming Control Act and the Gaming Regulations  
5 have been amended and refined many times since 1959 and they will  
6 be further amended and revised as industry and regulatory needs  
7 demand.

8           In 1991 and 1992 when legalized gaming began to  
9 expand to other states, many fact finding committees from these  
10 emerging jurisdictions came to Nevada and New Jersey to determine  
11 what style of gaming regulations suited their needs. Because of  
12 an increasing demand on our agencies resources and the repeated  
13 request for training assistance, the Gaming Control Board in  
14 conjunction with the International Gaming Institute at the  
15 University of Nevada, Las Vegas began to develop a series of  
16 training seminars for those emerging gaming jurisdictions.

17           The first three programs provided instruction for  
18 audit agent, enforcement agent, and the background investigator.  
19 Since the first seminars in 1994 we have assisted in training  
20 more 1,000 gaming agents and investigators in the United States  
21 and around the world. At the same time other jurisdictions were  
22 exploring our regulatory structure, our gaming licensees were  
23 exploring their opportunities in these new gaming jurisdictions.

24           And, while we believe that many new jurisdictions  
25 were developing an adequate regulatory structure, some were not.  
26 And in the case of cruise ship gambling and apparently in South  
27 Carolina, there was no regulatory oversight at all. In response  
28 to this the Nevada legislature enacted statutes to control the

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1 conduct of foreign gaming and by that I mean any gaming operation  
2 that's conducted outside the state Nevada by a Nevada licensee.

3           These foreign gaming statutes provided that any  
4 violation of a foreign, federal, tribal, state, country, city, or  
5 township law, regulation, ordinance, or rule governing the  
6 conduct of gaming shall also be a violation of the Nevada Gaming  
7 Control Act. Further, these Nevada licensees involved in foreign  
8 gaming shall at a minimum conduct their operation in accordance  
9 with the standards of honesty and integrity required for gaming  
10 in this state.

11           Governor Miller has negotiated six tribal gaming  
12 compacts in the state of Nevada and each of these compacts limits  
13 tribal gaming to that which is permissible under this state's  
14 Gaming Control Act and Nevada Gaming Regulation.

15           The problem in many other jurisdiction is that tribal  
16 gaming operations have exceeded the scope of gaming permitted  
17 elsewhere within those state and in doing so they have exceeded  
18 the state's capacity to adequately regulate those non-conforming  
19 operations.

20           In Nevada tribes subject themselves to the same high  
21 standards of gaming regulation that are mandated of non-tribal  
22 entities. The tribes rely on the state of Nevada to conduct  
23 inspections and other regulatory functions. This enables them to  
24 assure their patrons that Nevada Tribal Gaming opportunities are  
25 not subject to sporadic or a lesser degree oversight. It would  
26 put Tribal Gaming within Nevada at a competitive disadvantage if  
27 the gaming public thought these tribal gaming operations were

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1 governed by a weaker regulatory environment than other gaming in  
2 Nevada.

3 In conclusion, I mentioned in my opening statement  
4 that it is recognized that the gaming industry is vitally  
5 important to the economy of the state and the general welfare of  
6 the inhabitants. Because of that the legislature has given the  
7 Board and Commission broad powers to regulate what is considered  
8 a privileged industry. The scope of the Gaming Control Act and  
9 the Nevada Gaming Commission's regulations are equally broad.

10 I've tried to address some of the areas Dr. Kelly  
11 indicated might be of interest to you. I thank you for this  
12 opportunity and I'll be happy to answer any questions you might  
13 have.

14 CHAIRPERSON JAMES: Thank you very much, Mr.  
15 DuCharme.

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